

Investec Structured Products Due Diligence Support Pack

Q1 2020



About this document

When considering an investment into a structured product, it is crucial to understand the creditworthiness of the counterparty.

In addition to an analysis of credit ratings, advisers should carry out further due diligence on the counterparty taking into account information such as ratings outlooks, credit default swaps and the key fundamentals of the counterparty's balance sheet.

The purpose of this document is to provide you with information to support you in your assessment of Investec Bank plc as a counterparty.

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About Investec Structured Products

Investec Structured Products is the UK retail structured products division of Investec Bank plc.

Investec Structured Products was launched in 2008 and manufactures and distributes structured products for retail clients in the UK, which are only available via FCA-regulated Financial Advisers.

Investec Structured Products offers a range of structured investments (“Investment Plans”) and structured deposits (“Deposit Plans”). Investec Bank plc is the counterparty for both. In the case of Investment Plans, the issuer of the securities is Investec Bank plc. In the case of Deposit Plans, the deposit taker is Investec Bank plc.

Plans are offered on a tranche basis. The offer period for a tranche generally lasts between 6 and 8 weeks. When the offer period of a tranche closes (usually on a Friday), a new tranche of Plans will open on the following business day (usually on a Monday).

Since launching, Investec Structured Products has won numerous industry awards for its Plans, literature and service. Investec Structured Products has been awarded “Best Structured Products Provider” 25 times by 7 industry bodies, most recently for the tenth in a row at the ILP Moneyfacts Awards 2019.

About Investec Bank plc

The Investec group (comprising Investec plc and Investec Limited) partners with private, institutional and corporate clients, offering international banking, investments and wealth management services in two principal markets, South Africa and the UK, as well as certain other countries. The group was established in 1974 and currently has approximately 8,300 employees. In March 2020, the Asset Management business was demerged and listed as Ninety One.

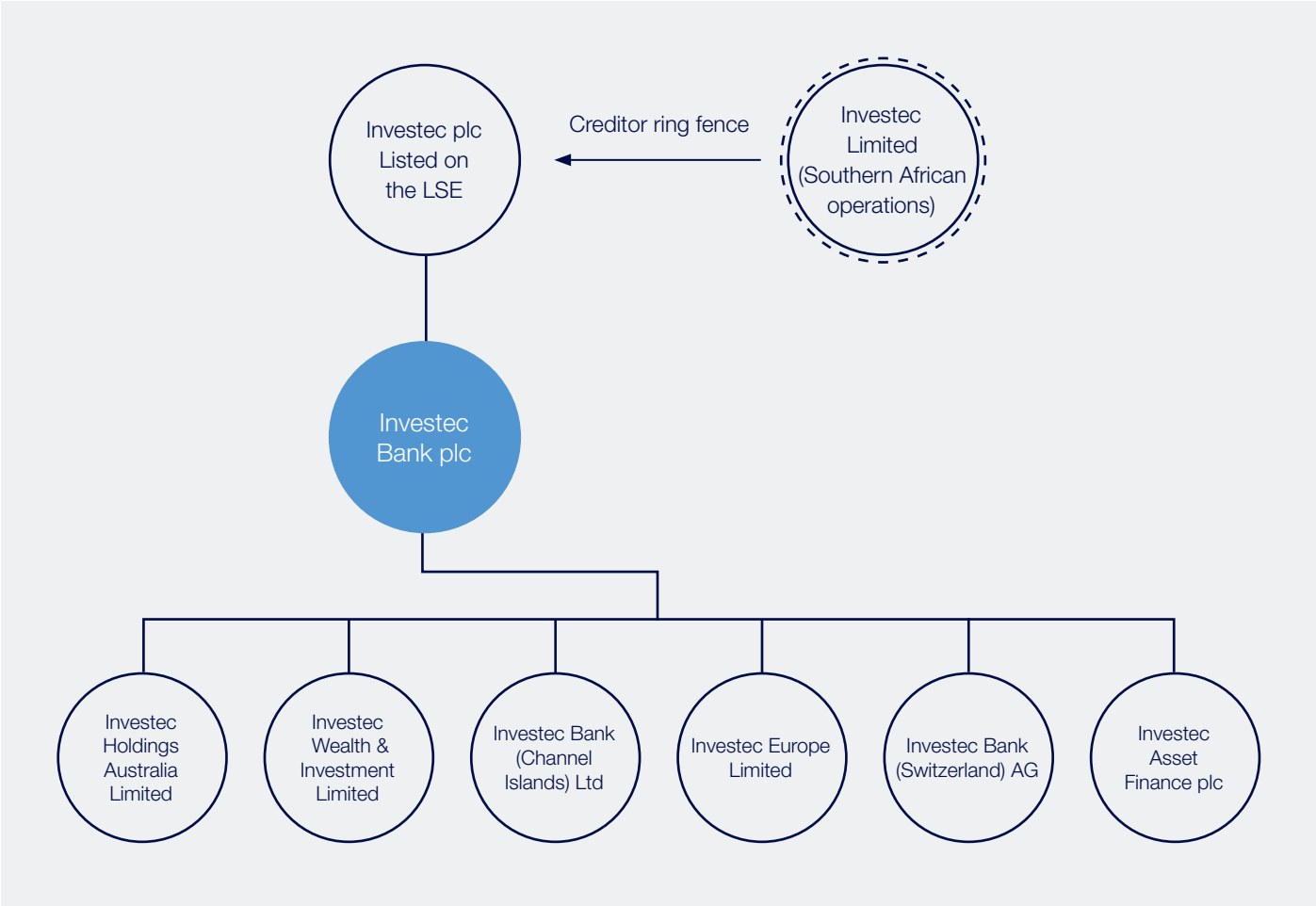
In July 2002, the Investec group implemented a Dual Listed Companies (DLC) structure with linked companies listed on the London Stock Exchange (LSE) and Johannesburg Stock Exchange (JSE Limited). Investec plc (housing the non-Southern African operations) and Investec Limited (housing the Southern African operations) form a single economic enterprise where shareholders have common economic and voting interests. Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross guarantees between the companies.

Investec Bank plc is the main banking subsidiary of Investec plc (a FTSE 250 entity since 2002).

Investec Bank plc has been operating in the UK since 1992 and is regulated by the Prudential Regulatory Authority, the Financial Conduct Authority and is a member of the London Stock Exchange.

Investec Group – Company structure

The below diagram shows where Investec Bank plc sits within the Investec group company structure.



Note:
All shareholdings are 100% unless otherwise stated.

Investec Bank plc – Key financial statistics

	30 Sep 2019	30 Sep 2018 [^]	% change	31 March 2019 [^]
Total operating income before expected credit losses (£'000)	513 441	546 730	-6.10%	1 089 842
Operating costs (£'000)	383 489	400 455	-4.20%	792 380
Adjusted operating profit (£'000)	113 161	138 950	-18.60%	274 813
Earnings attributable to ordinary shareholders (£'000)	60 690	97 724	-37.90%	161 917
Cost to income ratio (%)	74.80%	72.80%		72.60%
Total capital resources (including subordinated liabilities) (£'000)	3 066 788	2 886 130	6.30%	2 966 927
Total equity (£'000)	2 255 204	2 082 242	8.30%	2 163 228
Total assets (£'000)	23 000 166	21 162 620	8.70%	22 121 020
Net core loans and advances (£'000)	10 759 230	10 026 162	7.30%	10 486 701
Customer accounts (deposits) (£'000)	13 656 843	12 743 472	7.20%	13 499 234
Loans and advances to customers as a % of customer deposits	78.80%	78.70%		77.70%
Cash and near cash balances (£'mn)	6 460	6 294	2.60%	6 792
Funds under management (£'mn)	41 539	39 710	4.60%	39 482
Total gearing ratio (i.e. total assets to equity)	10.2x	10.2x		10.2x
Total capital ratio	17.1%	16.8%		17.0%
Tier 1 ratio	13.3%	12.4%		12.9%
Common equity tier 1 ratio	11.6%	11.1%		11.2%
Leverage ratio – current	8.0%	7.6%		7.9%
Leverage ratio – 'fully loaded'	7.8%	7.3%		7.7%
Stage 3 exposure as a % of gross core loans and advances subject to ECL	3.1%	4.2%		3.2%
Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL	2.2%	3.0%		2.2%
Credit loss ratio*	0.28%**	0.42%**		0.38%

[^] Information for March 2019 and September 2018 has been restated to exclude the financial impact and rundown of the Hong Kong direct investments business and the impact of other group restructures.

* Expected credit loss (ECL) impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL.

** Annualised

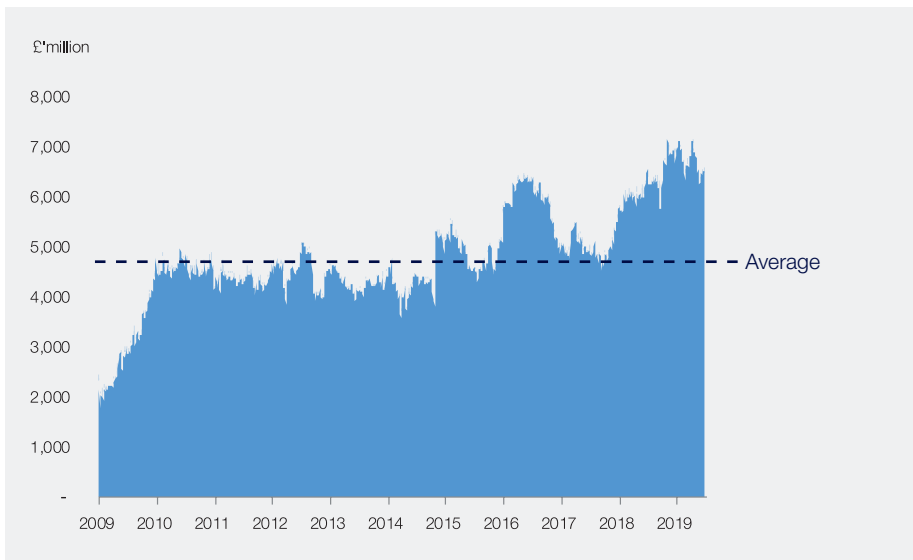
Investec Bank plc – Liquidity position

£6.5bn
(cash and near cash)

Investec Bank plc has a liquidity management philosophy that has been in place for many years.

The bank continues to focus on maintaining a high level of readily available high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25%. At 30 September 2019, the bank had £6.5 billion of cash and near cash to support its activities, representing approximately 47.3% of customer deposits.

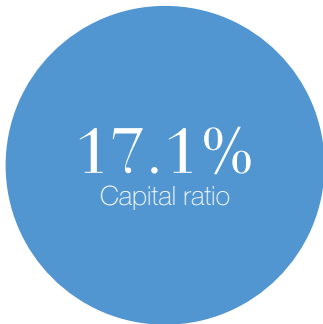
Investec Bank plc – Cash and near cash trend



Furthermore, the bank maintains an appropriate mix of term funding, placing a low reliance on interbank wholesale funding to fund core lending asset growth.

Investec Bank plc targets a diversified funding base, avoiding undue concentrations by investor types, maturity and market source, instrument and currency. Customer deposits amounted to £13.7 billion as at 30 September 2019 (31 March 2019: £13.5 billion). The bank's loan to deposit ratio was 78.8% at 30 September 2019 (31 March 2019: 77.7%).

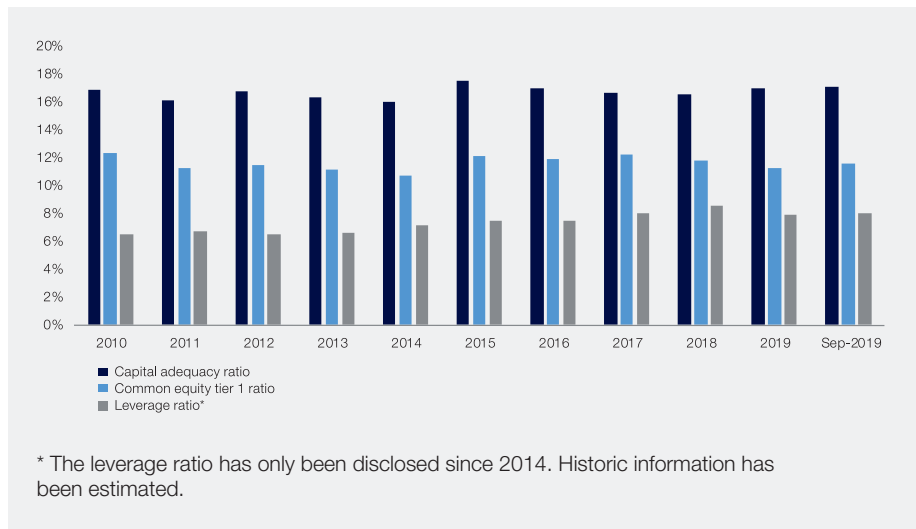
Investec Bank plc – Capital position



Investec Bank plc holds capital in excess of regulatory requirements and intends to perpetuate this philosophy and ensure that it remains well capitalised.

The bank has never required shareholder or government support. As at 30 September 2019, the total capital ratio of Investec Bank plc was 17.1% and the common equity tier 1 ratio was 11.6%.

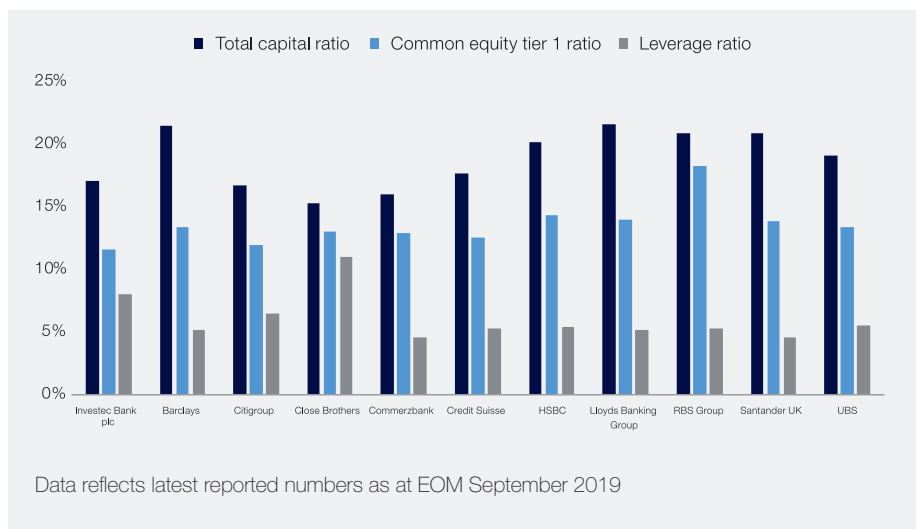
Investec Bank plc – Basel capital ratios – standardised approach



The bank's anticipated 'fully loaded' Basel III common equity tier 1 ratio and leverage ratio are 11.2% and 7.8%, respectively (where 'fully loaded' is based on Basel III requirements as fully phased in by 2022). These disclosures incorporate the deduction of foreseeable charges and dividends as required by the regulations. Excluding this deduction, the common equity tier 1 ratio would be 12bps higher.

Investec Bank plc is on the Standardised Approach in terms of Basel, thus the bank's risk-weighted assets represent a large portion of its total assets.

Capital ratio – Peer comparison



Investec Bank plc – Gearing



Investec Bank plc is not a highly geared bank.

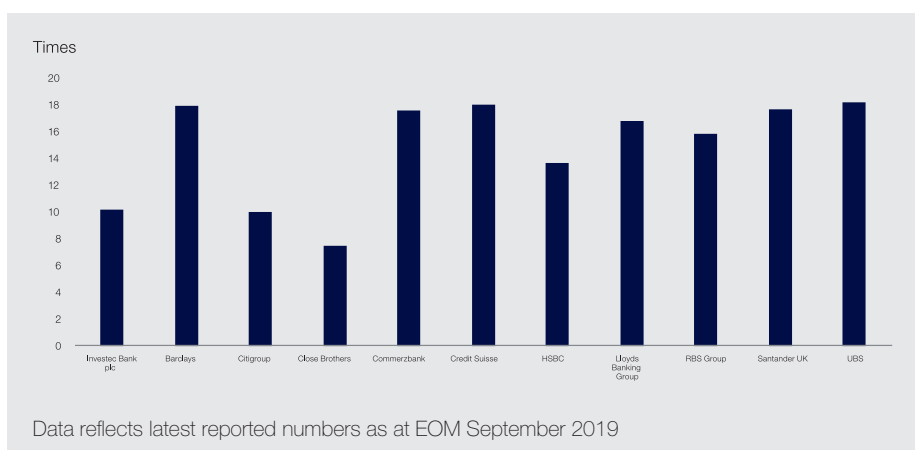
A number of banks that have come into difficulty in the past have been in excess of 40x geared.

IBP's gearing ratio is 10.2x.

Investec Bank plc – Gearing ratio trend



Gearing ratio – peer comparison



Investec Bank plc – Long term credit ratings

Moody's – A1

On 1 February 2019, Moody's upgraded Investec Bank plc's long-term deposit ratings to A1 (stable outlook) from A2 (positive outlook) and its baseline credit assessment (BCA) to baa1 from baa2. These ratings were affirmed on 16 August 2019.

The upgrades were the reflection of:

Investec Bank plc's successful de-risking of the balance sheet as its legacy assets continue to run-off, the shift in composition of its revenues towards lower lending risks and more stable revenue streams, primarily in the lower risk wealth management segment and Investec Bank plc's sound capitalisation and strong liquidity buffers.

Investec Bank plc – Credit rating history

	Moody's	Fitch
	Long-term deposit rating	Long-term rating
Feb 2019	A1	BBB+
Sep 2017	A2	BBB+
Feb 2016	A2	BBB
Oct 2015	A3	BBB
May 2015	A3	BBB-
Nov 2011	Baa3	BBB-
Mar 2009	Baa3	BBB
Nov 2008	Baa1	BBB
Dec 2007	Baa1	BBB+
Mar 2007	A3	BBB+

A detailed history of Investec Bank plc's ratings is shown above. During the financial crisis Investec Bank plc was downgraded two notches by Fitch first from BBB+ to BBB in November 2008 and then to BBB- at the end of November 2011.

Similarly, Investec Bank plc was downgraded by Moody's from A3 to Baa1 in December 2007 and then to Baa3 in March 2009.

We believe that our operating fundamentals remained sound over that time and that these downgrades were largely reflective of a very negative view taken by the rating agencies on the operating environment and economic conditions during that time.

Fitch – BBB+

On 1 April 2020, Fitch took action on a number of UK banking groups (including IBP), due to the coronavirus pandemic. IBP's Long-Term Issuer Default Ratings (IDR), Viability Ratings (VR) and debt ratings were placed on Rating Watch Negative (RWN), as Fitch believes the economic fallout from the pandemic crisis represents a near-term risk to its ratings.

On 7 September 2017, Fitch upgraded IBP's Long-Term IDR to BBB+ from BBB and its VR to bbb+ from bbb. These ratings were affirmed on 20 December 2019.

The upgrades were a reflection of:

The greater stability of Investec Bank plc's business model, the progress Investec Bank plc has made in running down its legacy assets and reducing the concentration of its loan book towards property lending, an increase in capital-light business and hence more stable earnings, while simultaneously maintaining sound capitalisation, strong liquidity and an adequate funding structure.

Investec Bank plc – Credit ratings peer group comparison

Below is a comparison of long-term credit ratings across some of the banks in the United Kingdom

	Investec Bank plc	Barclays plc	Close Brothers Limited	Clydesdale Bank plc	Cooperative Bank Plc	HSBC Holdings plc	Lloyds Banking Group plc	RBS Group plc	Santander UK plc	Standard Chartered Bank
Moody's										
Long-term rating	A1	Baa2	Aa3	Baa1	B2	A2	A3	Baa2	Aa3	A1
Outlook	Stable	Stable	Negative	Stable	Positive	Negative	Negative	Positive	Negative	Stable
Fitch										
Long-term rating	BBB+	A	A-	A-	B-	A+	A+	A	A+	A
Outlook	RWN	RWN	Negative	RWN	RWN	Negative	Negative	Negative	Negative	Stable

Note: Comparative ratings have been sourced from the Moody's and Fitch websites as at 5 March 2020 and may be subject to changes for which we cannot be held accountable. It is advisable to discuss the ratings of the various companies with the companies themselves as this information merely reflects our interpretation thereof.

Investec Bank plc – Credit Default Swaps

There is currently no liquid market for credit default swaps that reference Investec Bank plc.

Investec does not issue material amounts of wholesale debt (i.e. corporate bonds). This is because Investec raises the majority of its funding through retail & corporate deposits and therefore has a very limited requirement to access the capital markets, resulting in a relatively low number of issuances outstanding.

For this reason, there is currently insufficient need from the market for a liquid credit default swap on Investec Bank plc.

Contact us

If you require further information on Investec Bank plc or the Investec group, please get in touch.

You can visit our Investor Centre:
www.investec.com/investorcentre

You can visit the Adviser Support section of the Investec Structured Products website:
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